

Testimony of Gary C. Kelly, Deputy Chair, Federal Reserve Bank of Dallas Board of Directors

Before the Task Force on Monetary Policy, Treasury Market Resilience, and Economic Prosperity of the House Committee on Financial Services

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On Examining the Structure of the Federal Reserve System

Introduction

Chairman Lucas, Ranking Member Vargas, and Members of the Task Force, good morning. Thank you, Chairman Lucas, for holding this hearing and inviting me to testify on the structure of the Federal Reserve System. This morning, I'll speak to the role of our Nation's central bank and its federated system; the role of the 12 regional Reserve Banks; and the role of the regional Reserve Banks' Boards of Directors. The views I express here are my own and are not necessarily those of the Federal Reserve System.

Background

First, I'll quickly share my background and role at the Dallas Fed. I was a CPA coming out of college but spent the last 40 of 49 years as an executive with Southwest Airlines, formerly Chairman, President, and CEO. I joined the Dallas Fed in 2024 to fulfill a retiring Director's final year of a three-year term to the Board of Directors. I was appointed to a full term and began serving as Deputy Chair in 2025. A second full term would extend my service through 2030. I consider it an honor and a privilege to serve the Dallas Fed.

The Federal Reserve System Structure

Since 1913, the Federal Reserve has served America through a structure unlike any other central bank in the world. Before that, for over a century, our Country experienced two central bank attempts and eight decades with no central bank. It was a period of significant chaos, with numerous bank failures, financial panics, and economic recessions and depressions. To promote financial stability in the banking system and its service to the broader economy, Congress passed, and President Woodrow Wilson signed, the Federal Reserve Act. That statute created the Federal Reserve System, the third central bank of the United States, with a federated structure comprised of a central board, the Board of Governors, in Washington, D.C., and 12 regional Reserve Banks that ensure every corner of our Nation has a voice in monetary policy and a role in Federal Reserve operations.

The Federal Reserve System has a seven-member Board of Governors, who are appointed by the President of the United States and confirmed by the Senate to staggered 14-year terms. The Board of Governors has operational oversight of the Reserve Banks and accountability for regulatory matters.

Congress later created the Federal Open Market Committee (FOMC) to promote coordination on monetary policy. The FOMC is composed of the Board of Governors and all 12 Reserve Bank Presidents, for a total of 19 participants. The Governors and the President of the New York Fed vote at every meeting, and the remaining four votes are cast on a rotating basis among the other 11 Reserve Bank Presidents. The FOMC meets eight times a year to determine the path of monetary policy in accordance with the dual mandate established by Congress in the Federal Reserve Reform Act of 1977: price stability and maximum employment.

The Role of the District Reserve Banks

Each of the 12 Reserve Banks brings unique regional perspectives to this national monetary policy discussion. The Federal Reserve Bank of Dallas represents the Eleventh Federal Reserve District, which includes Texas, northern Louisiana, and southern New Mexico. Dallas Fed President Lorie Logan took office in 2022, was reappointed this year, and is a current voting member of the FOMC. The Dallas Fed supports the Fed's mission through five key functions. These five key functions are: conducting monetary policy in pursuit of the dual mandate of price stability and maximum employment; promoting financial stability; ensuring the safety and soundness of banks and financial institutions; fostering payment system efficiency and effectiveness by maintaining the infrastructure that enables financial transactions and managing the issuance and distribution of cash; and promoting consumer protection and community development to ensure a fair and transparent marketplace that benefits all Americans. The Dallas Fed's close connections to District communities are essential to delivering on these responsibilities, as described further below.

Reserve Banks operate for the good of their Districts and the Nation and remain accountable through multiple channels. For example, the Board of Governors has oversight responsibilities for the Reserve Banks. In addition, the Reserve Banks remain accountable to the American people through their extensive public dialogue and communications, which provide transparency, and through their Board of Directors. I believe this accountability is essential in a representative democracy, and in my experience, the Fed takes its accountability very seriously.

The Role of Reserve Bank Boards of Directors

The Reserve Bank Boards serve as a critical accountability mechanism by providing oversight and governance to the Reserve Banks, ensuring each Bank represents its District well.

Each Board consists of nine members, six elected by member Bank shareholders, and three recommended to, and appointed by, the Board of Governors. The Dallas Fed Board of Directors provides economic insights from across the District, represents the Bank in the community, helps identify opportunities for increased engagement across sectors, and promotes public understanding of the Fed.

I have the privilege of sharing a seat on the Board with executives representing energy, education, telecommunications, real estate, social services, and, of course, banking. Notably, the three bankers on our Board all represent community banks in the Eleventh District, and they are closely connected to the communities they serve.

Each Reserve Bank Board oversees its Bank's operations, strategic direction, risk management, and modernization initiatives. Boards review and approve budgets before they are submitted to the Board of Governors, conduct annual Bank evaluations, and confer with the Board of Governors Committee on Federal Reserve Bank Affairs, to help the Board of Governors carry out its oversight responsibilities. Every five years, each respective Board conducts formal appraisals of the Bank President and First Vice President, which are submitted to the Board of Governors for approval. This process occurred recently, with all current Presidents and First Vice Presidents being reappointed to five-year terms earlier this year.

Board and Advisory Council Meetings

Beyond these oversight responsibilities, the Dallas Fed Board of Directors establishes the Bank's discount rate, subject to review and determination by the Board of Governors every two weeks. The Dallas Fed Board provides input to President Logan for monetary policy considerations during regular Board meetings. These meetings are intentionally scheduled to occur the week prior to each FOMC meeting in Washington, enabling Directors to provide President Logan with real-time information to ensure the perspectives of households and businesses throughout the Eleventh District are represented at the policy table. We also ensure that the Bank's strategies and activities are aligned with the unique characteristics of our region. One clear example of regional alignment is the Dallas Fed's Global Institute, which was created in 2024 to lead policy-related research on global trade, deepening the System's understanding of international trade and financial flows and the U.S.-Mexico economic relationship.

The Dallas Fed has three Branch Offices, in El Paso, San Antonio, and Houston. Each Branch Office has its own Board of Directors composed of a distinguished and diverse group of leaders. The Branch Directors attend the Dallas Fed Board meetings on a rotating basis and provide local insights to help further reinforce the regional and industrial diversity of perspectives provided to President Logan.

The Dallas Fed maintains five Advisory Councils covering community banks, financial services, community and social services organizations, academia, and, of course, energy. For example, the Dallas Fed Energy Advisory Council comprises executives from various sectors of the energy industry who work in the Eleventh District and provide insights into emerging trends and issues facing the industry. The Advisory Councils are not fixed and can be adapted over time as conditions change in the District. Bank Board members are welcome to attend these Advisory Council meetings.

All of the Dallas Fed's Boards and Advisory Councils ensure that those closest to the developments in our economy are able to add their thoughts and voices to the work of our Nation's central bank. And this is happening across the Country at the other 11 regional Reserve Banks. This diverse, bottoms-up, grassroots collection of information and perspectives is precisely what Congress had in mind when it created the federated structure for our central bank: an institution that would be responsive to the interests of those outside of the Nation's financial and political centers, avoid groupthink, and encourage debate through diverse and independent perspectives.

Independent Research and Analysis

These grassroots insights are complemented by rigorous, independent research. The research staff at the Dallas Fed is widely recognized for its contributions to monetary policy analysis and plays a critical role for the District and the System. Among the contributions is the development of the Trimmed Mean PCE inflation rate, an alternative to the more common measure of core inflation, which drops the most extreme price changes in either direction, up or down, to better gauge broad inflation trends.

The team also provides extensive reports at Board meetings on the regional and national economy, employment, inflation, energy, water, tariffs, and immigration. Board members' comments are incorporated into the staff's thinking, modeling, and analysis, along with surveys from the District and feedback from Branch Offices and the Advisory Councils. Because the staff is regularly engaged with individuals throughout the District, it hears and reflects views which may be outside of the consensus, further adding to the diversity of perspectives considered by those on the FOMC. Reserve Bank researchers have a tradition of independent thinking and moving the System's policymaking in productive directions.

The research staff prioritizes actively surveying organizations to ensure that broad, diverse, and representative views are incorporated into the policy process to contribute to the most comprehensive view of the economy. To achieve this, the Dallas Fed conducts numerous sector surveys, including agriculture, banking, manufacturing, services, and energy. The energy survey, in particular, is widely followed outside of Texas, given that the state accounts for almost

half of overall U.S. crude oil production. Survey results, in addition to data releases, economic indicators, and research findings, are publicly available on the Dallas Fed's website.

The Dallas Fed's connections to industry experts, especially in the energy sector, have been of considerable value to the Federal Reserve System in recent weeks, in assessing the possible production response of U.S. energy producers, and in assessing the potential economic impact of these developments to U.S. companies and consumers. Routine CEO roundtables, with both for-profit and not-for-profit organizations, help the team understand how economic conditions and policy actions are affecting households and small businesses in the Eleventh District.

As former Chair Powell has observed, through regional Reserve Banks, the Fed has a network of business and civic contacts that is unequaled. These contacts ensure that the voices and views of Americans across the Country are well represented in the policy process.

Community Connection

These connections enable Reserve Banks not only to understand their communities, but to serve them. Regional Reserve Banks promote the long-term economic vitality of communities in their Districts. One notable way the Dallas Fed works to strengthen our District economy is through participation in the Fed's Small Business Credit Survey, created after the financial crisis to support fair access to credit and capital for small businesses. During the financial crisis, Reserve Banks conducted a series of meetings throughout the Country with small-business stakeholders to better understand their concerns and credit needs. Reserve Banks recognized the ongoing importance of this understanding, and these efforts were formalized into an annual national survey to ensure the health of this sector, which is critical to the vitality of Main Streets all across this Country.

To truly be a partner in the community, we must be present. This is something that my Board colleagues and President Logan see as essential to our mission, and to our ability to serve the community. Like all Reserve Bank presidents, President Logan travels extensively throughout the District, making multi-day trips to nearly every corner of the District. These visits help deepen her understanding of the region's people and economy, to best represent the District in monetary policy discussions at the FOMC.

Our Board has had the opportunity to join her on these visits by periodically hosting our Board meetings throughout the District, including in El Paso this past April. This allows us to meet with local stakeholders and see local economic conditions firsthand. To further the Dallas Fed's understanding of our region's economy, the Bank recently appointed a network of leaders posted throughout the District who live in and regularly contribute to communities outside of

Dallas. This integration is critically important to understand and represent the entire District. President Logan and her team demonstrate a deep curiosity to monitor timely developments in the economy, and they do so by engaging with communities across the District to have real conversations with real people about what they're experiencing.

And, to promote public understanding of the Federal Reserve and its mission, the Dallas Fed regularly invites the public into the Bank. This includes hosting roundtables, conferences, and its Global Perspectives speaker series, which welcomes policymakers, academics, and industry experts into the Bank for timely discussions on key issues affecting the economy.

Conclusion

To conclude, I'd like to reiterate that the Fed's federated structure, unique among central banks throughout the world, remains critical to its performance and credibility. Congress created a durable structure that represents the entire Nation, rather than merely the interests of one city or region or industry. The 12 regional Reserve Banks are deeply woven into the fabric of the communities they serve all across this Country, a geographically vast and diverse America. They help make sure that America's interests are the foundation of a thoughtful, independent, and accountable Federal Reserve.